

STATINTL

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Here is the latest draft.
Dr. Houge suggests that
Mr. Amory and/or Mr. Dulles
might want to see it.
Thanks again.

Phil Areeda

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STATINTL

*delivered by [redacted] 1957 at
the [redacted] Committee
for Economic Development.
cc: Agnes Weeren
Zenn. Has no mission.
19 Aug. 1958*

Are the Soviets Winning the Battle of Production

I congratulate the gentleman who phrased this subject, because production in the Soviet Union and in the United States is indeed a battleground area. The outcome of this battle is of basic importance not only to the military capabilities of the two leading antagonists, but also in the struggle for the uncommitted areas of the world. For rapid economic growth is the indispensable core of the Soviet argument that Communism is the wave of the future, that in competition with capitalism it will win.

Are the Soviets winning this battle to which they have dedicated themselves? To attack this problem we must decide when the battle began, what progress has been made on both sides since its initiation, and with admittedly a somewhat cloudy crystal ball, peer into the future.

Industrial Production, 1928-57

I take 1928 as the date of initiation of the production contest. There are a number of reasons for choosing this date. By 1928 Stalin had won the internal power struggle and the policy of forced draft industrialization, a policy which has remained unchanged, was embodied in the first five-year plan. The years from 1913-1928, it seems to me, are not pertinent of an analysis growth to the two countries. Soviet steel production in 1913

was a little over four million tons and in 1928 it was still a little over four million tons, reflecting the stagnation imposed, first, by World War I and, secondly, by subsequent years of internal revolution and civil war.

Soviet industry in 1928 was microscopic in comparison to that of the United States. Taking a selection of six basic commodities and machinery items, USSR output compared to that of the U.S. ranged from a low of less than 1% and of a high of 8%. These commodities include steel, electric power, machine tools, cement, trucks, and tractors. Comparing the same series in the two countries for 1956, USSR's relative showing had improved very considerably. As a proportion of the U.S., Soviet output of the same commodities ranged from 27% to 166%.

No major hocus-pocus is required to explain how the Soviets have achieved their remarkable record of growth. Four pertinent steps have been largely responsible: (1) transfer of millions of workers from agriculture to urban occupations, (2) a parallel prodigious effort to educate these workers in modern skills and technology, (3) the diversion of an unusually large proportion, from $1\frac{1}{2}$ to 2 times that of the United States, of gross national product to investment, (4) the concentration of investment funds in heavy industry, particularly electric power, the metallurgical base, and producers goods.

It is this plowing back of possible ruble into heavy industry, into the means of production, that is largely responsible for rapid growth. To use a simple example, it is the use of steel

to build steel capacity, rather than the chewing up of large tonnages of metal in making automobiles.

This course of action has brought Soviet industry to a production level somewhat over one-third that of the U.S., measured in terms of 1957 production. However, Soviet output of basic materials and heavy industry products are considerably above this overall average. Correspondingly, the output of durable consumer goods is substantially below the overall average. Specifically, the output of coal in the USSR is about 80% of that in the U.S., the value of machine tools produced is about 20% higher than in this country, and the output of steel is running about 51 million metric tons this year or about one-half U.S. output.

In contrast, durable consumer goods production, measured in relative output of automobiles, washing machines and refrigerators is only from 2 to 4% of U.S. output. The Soviets are not joining battle in this arena. Nor are they doing so in the field of housing. Housing investment in the Soviet Union in 1957 is less than 1/3 of that of U.S., and the square feet of living space available per capita is extremely small by U.S. standards.

Military Support Capabilities

This structuring of the Soviet economy has important implications for war-supporting comparisons. With very little steel,

petroleum and other key materials flowing into civilian consumption, the bulk of output is available for the production of military goods and for investment. It has been estimated that the availability of Soviet steel for such purposes is probably as great as in the United States, despite the differences in total output in the two countries. (Joint Economic Committee estimate, 1957).

We are faced with the undeniable fact that the Soviet Union has in being today not only large, well-equipped conventional military forces but also nuclear weapon delivery systems technologically equivalent to the most advanced military hardware in the West, and in some cases possibly technologically superior.

Turning points in history are never very easy to see at the time they are happening. But I would like to venture the prediction that the traditional relationship of economic war potential - that is, the measure of what a nation potentially could devote to military efforts some 2 or 3 years after the start of war - to national policy has ended. I would venture that for the kinds of war likely to be fought in the future, *differences in* potential economic capabilities of the size existing between the U.S. and the USSR today are totally irrelevant. These wars will probably fall into two classes:

First, peripheral actions such as that in Korea where neither contestant mobilizes or commits more than a fraction of his potential economic support capabilities.

Secondly, general nuclear war. For this type of warfare, a potentially larger capacity for military support to be drawn upon after the war starts is only of academic interest. Of overwhelming importance is the relative military capabilities in being at the beginning of the conflict.

If these views are correct, the only type of military action in which the differences in economic war supporting potential presently existing between the U.S. and USSR would be significant would be in a long drawn out mass conventional weapon conflict, similar to World War II. This possibility I would regard as a special case.

What I am suggesting is that the production battle is moving into a new arena. This contest to produce enough steel, enough machine tools, and enough electronics to forge the tanks, guns, aircraft and guided missiles in numbers is not now of overwhelming importance. What is of key importance is the battle of technology, the Soviet struggle for technological "breakthroughs" which would give them a significant, and possibly decisive, military advantage. In this arena, the quantity and quality of scientific manpower provides the key, and this is, ~~I believe~~, a subject ~~to be~~ discussed in another part of today's program.

Agricultural Goals

Long-term goal to catch up with and surpass U.S. in per capita industrial output reaffirmed by Khrushchev. However,

diversion of greater share of investment funds to agriculture and to housing means somewhat slower rate of heavy industry growth than in past.

This also has brought a new battleground area, that of agriculture. The Soviets are attempting to transform their diet from primarily grain and potatoes to one rich in quality foods. To achieve this goal, Khrushchev called upon Soviet agriculture to match the U.S. in per capita production of milk by 1958, and of meat by 1960-61. I would not take these specific dates too seriously, but I certainly would take the challenge seriously. For there is no doubt that the Communist leadership is committed to the program, and no doubt that investment funds are being poured into Soviet agriculture to make attainment of the goal feasible within a relatively few years. Khrushchev has stated publicly that the hitting of the meat, milk and butter targets would have an effect on the minds of men greater than that of the atom bomb. It would prove, the Communists believe, the "superiority" of their way of life. I would think that the agricultural program has a direct relationship to the stability of the regime, because it shows, for the first time in Soviet history, a serious concern for the living standards of the people.

How is this battle going? While the Soviets have made considerable progress in the past three years, they are not now

at a level which promises victory by the 1958-61 period. Several years more will be needed, but the goals may well be met by that time.

Future Growth

I would like to turn now to the future long-run economic growth of the Soviet Union. We can discuss this subject with more confidence now than a month ago, because of Khrushchev's November 6th speech to the Supreme Soviet. This speech laid down a series of industrial goals to be reached by 1972, a long-term forecast reminiscent of the 1946 Stalin goals to be achieved by 1960.

Khrushchev's 1972 goals in important areas -- steel, electric power, petroleum -- are slightly higher than present U.S. output, and for others -- cement and coal are 50 to 100 percent above present U.S. production. Compared with past performance, these goals seem relatively modest and therefore ^{seem} attainable. Annual rates of increase required to meet them range from about 3 percent for coal to 10 percent for electric power.

What these goals imply is that the absolute gap between U.S. and USSR industrial production should begin to narrow sometime in the 1960's. This is true even though the 1972 goals reveal a planned slowdown in the past headlong rate of growth for heavy industry. Even today ^{measured in dollars,} Soviet investment in productive facilities ⁱⁿ industry, electric power, and mining is not far behind that of the U.S.

Summary

To summarize, I would like to return to the question, "Are the Soviets winning the battle of production?"

In the most important economic sense, I think the answer is that the Soviets have already won. They have won because their economy has been able to bring into being a large and formidable military establishment which challenges the military supremacy of the United States. Future economic growth, I would expect to be reflected more in the quality of Soviet weapons systems, rather than in an across-the-board growth in size.

Secondly, it is clear that the battleground has been selective. It has not included housing, or consumer durables, such as automobiles, refrigerators or washing machines. However, it now includes foodstuffs as a battle arena for the 1960's. But consumer welfare as a whole is excluded.

Finally, the rapid rate of growth has in itself been a battle area. The industrial achievements of the USSR have been trumpeted in Soviet propaganda throughout the underdeveloped countries of the world. It is the indispensable core of the argument that Communism is the wave of the future, that in competition with capitalism, it will win. It is too early to state that the Soviets have won this propaganda battle, but leaders in many undeveloped countries are inclined to listen believingly to the claim that the Soviets made themselves a great power in one generation. Let's hope they listen as carefully to our side of